| | 2000 | 1999 | Change |
|---|---|---|---|
| | (CHF millions) | (CHF millions) | (%) |
| **Net income from ongoing activities** | | | |
| **Operating income from ongoing activities** | **6,727** | **6,321** | **6** |
| Income from associated companies | 97 | 376 | (74) |
| Financial income, net | 1,216 | 990 | 23 |
| **Income before taxes and minority interests** | **8,040** | **7,687** | **5** |
| Taxes | (1,504) | (1,626) | 8 |
| **Income before minority interests** | **6,536** | **6,061** | **8** |
| Minority interests | (25) | (20) | (25) |
| **Net income from ongoing activities** | **6,511** | **6,041** | **8** |

*Income from associated companies*

Income from associated companies is mainly due to the investment in Chiron. In 1999 income from this investment was boosted by an exceptional gain of CHF 208 million as a result of Chiron divesting its diagnostic businesses.

*Financial income, net*

Total Group financial income increased from CHF 793 million to CHF 1.1 billion. This was mainly the result of higher investment income, in particular gains on the sale of US dollar denominated bonds and successful currency management.

*Taxes*

Despite increased profits, the tax charge of CHF 1.8 billion was almost the same as in 1999. Taxes as a percentage of income before tax were reduced to 20.1% compared with 21.5% in 1999. This was a result of higher financial income which is taxed at lower than average Group rates and due to a change of the operating income mix.

*Net income*

Total Group net income (including divested and discontinued activities) as a percentage of total sales reduced slightly from 20.5% in 1999 to 20.1% in 2000. This decrease was due to margin declines in some of the businesses and one-time gains in 1999 such as a gain of CHF 208 million arising from the divestment of Chiron's diagnostics business and the CHF 352 million one-time gain from the divestiture of the non-core Consumer Health activities.

**Exchange Rate Exposure and Risk Management**

We do business in many currencies other than the Swiss franc. In 2001, 45% of our sales were generated in US dollars, 23% in Euro, 5% in Swiss francs, 8% in Japanese yen and 19% in other currencies. In 2000, 44% of sales were generated in US dollars, 24% in Euro, 6% in Swiss francs, 8% in Japanese yen and 18% in other currencies. In 1999, 42% of sales were generated in US dollars, 26% in Euro, 6% in Swiss francs, 7% in Japanese yen and 19% in other currencies.

In 2001, 31% of our operating costs were generated in US dollars, 22% in Euro, 26% in Swiss francs, 5% in Japanese yen, and 16% in other currencies. In 2000, 33% of operating costs were generated in US dollars, 23% in Euro, 26% in Swiss francs, 5% in Japanese yen, and 13% in other currencies. In 1999, 31%

of operating costs were generated in US dollars, 23% in Euro, 23% in Swiss francs, 5% in Japanese yen and 18% in other currencies.

As a result of our foreign currency exposure, exchange rate fluctuations have a significant impact in the form of both translation risk and transaction risk on our income statement. Translation risk is the risk that our consolidated financial statements for a particular period or as of a certain date may be affected by changes in the prevailing rates of the various currencies of the reporting subsidiaries against the Swiss franc. Transaction risk is the risk that the local currency impact of transactions executed in currencies other than the local currency may vary according to currency fluctuations.

On average in 2001, as compared with 2000, the Swiss franc was stronger against the Japanese yen, Euro and British pound, yet remained almost at the same level against the US dollar. The total negative currency effect in 2001 on our continuing sales growth was 4%, and the total negative impact on our continuing operating income growth was 1%.

On average in 2000, as compared with 1999, the Swiss franc was weaker against the US dollar, but strengthened against the currencies participating in the Euro. The total positive currency effect in 2000 on our continuing sales growth was 7% and the total positive impact on our continuing operating income growth was 4%.

**New Accounting Pronouncements**

See note 33(k)(12) and (13) to the consolidated financial statements for a discussion of the effect of new accounting standards.

**Introduction of the Euro**

We implemented dual currency reporting (legacy currencies and Euro) on January 1, 2000 without any operational or technological difficulties. We believe that the introduction of the Euro in January 2002 will reduce our cost of bearing foreign currency exchange risk and will diminish uncertainties relating to currency fluctuations from export sales within the European Monetary Union. The foreign currency exposure from transactions in US dollar or Japanese yen or other currencies outside the European Monetary Union will not be changed by the introduction of the Euro.

### 5.B Liquidity and Capital Resources

The following table sets forth certain information about our cash flow and net liquidity for each of the periods indicated.

| | Year ended December 31, | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| | (CHF millions) | | |
| Cash flow from continuing operating activities | 7,342 | 6,175 | 5,943 |
| Cash flow from continuing investing activities | (4,675) | (50) | (3,129) |
| Cash flow from financing activities | (354) | (4,755) | (4,320) |
| Net cash flow from discontinued operating and investing Agribusiness activities | | 1,271 | 502 |
| Net cash flow from divested Consumer Health activities | | | 560 |
| Net effect of currency translation on cash and cash equivalents | 31 | (119) | 74 |
| **Change in cash and cash equivalents** | **2,344** | **2,522** | **(370)** |
| Change in short- and long-term marketable securities | (1,023) | (4,600) | 3,293 |
| Change in short- and long-term financial debts | (1,504) | 3,861 | (1,009) |
| **Change in net liquidity** | **(183)** | **1,783** | **1,914** |
| Net liquidity at January 1 | 14,461 | 12,678 | 10,764 |
| **Net liquidity at December 31** | **14,278** | **14,461** | **12,678** |

*Cash Flow From Continuing Operating Activities*

Our primary source of liquidity is cash generated from our operations. In 2001, cash flow from continuing operations increased to CHF 7.3 billion in 2001 from CHF 6.2 billion in 2000, and CHF 5.9 billion in 1999. Of the CHF 1.1 billion increase in 2001 over 2000, CHF 637 is attributable to reduced funding of working capital. Of the CHF 232 million increase in 2000 over 1999, CHF 103 million was attributable to reduced payments of restructuring and other provisions.

Our free cash flow on a comparable basis (including cash flow from continuing operating activities, purchases and sales of tangible fixed assets, intangibles and financial assets and dividends paid to third parties, but excluding cash paid or received in divesting or acquiring subsidiaries or minority interests, such as our acquisitions of the Roche stake and of product and marketing rights) increased by 25% to CHF 4.1 billion in 2001 from CHF 3.3 billion in 2000, and from CHF 2.9 billion in 1999.

The following table details the components of these increases.

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| | (CHF millions) | | |
| Cash flow from continuing operating activities | 7,342 | 6,175 | 5,943 |
| Purchase of tangible fixed assets | (1,351) | (1,179) | (1,094) |
| Purchase of intangibles and financial assets | (7,552) | (3,088) | (616) |
| Sale of tangible, intangible and financial assets | 1,825 | 749 | 584 |
| Dividends paid to third parties | (2,194) | (2,064) | (1,935) |
| Acquisition of product and marketing rights | 826 | 2,661 | |
| Acquisition of 21.3% of the voting shares of Roche Holding Ltd | 5,177 | | |
| **Free cash flow from continuing activities** (excluding Roche stake, product and marketing rights acquisitions) | **4,073** | **3,254** | **2,882** |

In 2001, our gross capital expenditure on tangible fixed assets (at average rates of exchange) totaled CHF 1.4 billion, compared to CHF 1.2 billion in 2000 and CHF 1.1 billion in 1999. The level of CHF 1.4 billion reflects our ongoing investment in production and in research and development facilities. We expect 2002 capital expenditures to be approximately the same as they were in 2001. We expect to fund these expenditures with internally generated resources.

*Cash Flow From Continuing Investing Activities*

Our net cash outflow from investing activities increased to CHF 4.7 billion in 2001 from CHF 50 million in 2000, and CHF 3.1 billion in 1999. The more than CHF 4.6 billion increase in 2001 over 2000 was primarily the result of the CHF 5.2 billion we spent to acquire our strategic interest in Roche Holding Ltd the CHF 3.0 billion decrease in our net cash outflow between 1999 and 2000 was primarily the result of an increased cash inflow in 2000 of CHF 6.6 billion from our sales of marketable securities. This cash inflow was partly used to finance our 2000 acquisitions of subsidiaries (primarily Wesley Jessen for CHF 1.3 billion), and of intangibles (primarily Famvir®/Denavir® for CHF 2.7 billion).

*Cash Flow From Financing Activities*

Our net cash outflow from financing activities decreased to CHF 354 million in 2001 from CHF 4.8 billion in 2000 and CHF 4.3 billion in 1999. The CHF 4.4 billion decrease in 2001 as compared to 2000 was due mainly to proceeds we received from our issuance of equity option instruments and from a non-convertible bond issue. The increase of CHF 435 million in 2000 over 1999 was the result of our more than CHF 1 billion increase in debt repayments, and an increase of CHF 129 million in dividend payments. However, these amounts were offset by lower treasury share acquisitions. In 2001, we received CHF 1.6 billion by increasing our financial debts, as compared to payments of CHF 1.5 billion in 2000 and CHF 466 million in 1999 from reducing our financial debts.

*Net Liquidity*

Our overall net liquidity (cash, cash equivalents and marketable securities less financial debt) was CHF 14.3 billion as of December 31, 2001. This was a decrease of CHF 183 million from our overall net liquidity as at December 31, 2000, which totaled CHF 14.5 billion. Our net liquidity as of December 31, 1999 was CHF 12.7 billion.

*Contractual Obligations*

We have long-term research agreements with various institutions which require us to fund various research projects in the future. As of December 31, 2001, the aggregate total amount of payments which may be required under these agreements (including certain potential milestone or other contingent payments) was CHF 1.5 billion. We expect to fund these long-term research agreements with internally generated resources.

As of December 31, 2001, our total financial debt was CHF 7.6 billion, as compared with CHF 6.1 billion as of December 31, 2000, and CHF 9.9 billion as of December 31, 1999. The increase of CHF 1.5 billion of debt at December 31, 2001 compared to December 31, 2000 is primarily due to the issue of CHF 1.3 billion of straight debt. As a result our year-end debt/equity ratio increased slightly to 0.18:1 in 2001, from 0.16:1 in 2000. The reduction of CHF 3.8 billion of debt at December 31, 2000 compared to December 31, 1999 is primarily due to the repayment of CHF 638 million of long-term straight debt and a CHF 3.0 billion reduction in short-term debt of which a significant amount represents debt transferred to Syngenta on its spin-off in November 2000. This resulted in a drop in our year-end debt/equity ratio to 0.16:1 in 2000 from 0.27:1 in 1999.

We have long-term financial debt principally in the form of convertible and non-convertible bonds. At December 31, 2001, we had CHF 1.2 billion in convertible bonds outstanding, compared with CHF 1.1 billion at December 31, 2000, and CHF 1.1 billion as of December 31, 1999.

We had CHF 2.3 billion in non-convertible bonds at December 31, 2001, up from CHF 961 million at December 31, 2000 and CHF 1.6 billion as of December 31, 1999. The increase from 2000 to 2001 is primarily due to the issuance on October 17, 2001 by our Bermuda affiliate, Novartis Securities Investment Ltd, of EUR 900 million of 4% guaranteed notes, due 2006, guaranteed by Novartis AG. The reduction from 1999 to 2000 is primarily due to the repayment of $400 million (CHF 638 million) of straight bonds and of Euro Medium Term Notes that were due in 2000.

As of December 31, 2001, we had short-term debt (excluding the current portion of long-term debt) of CHF 3.8 billion as compared with CHF 3.7 billion as of December 31, 2000, and CHF 6.7 billion as of December 31, 1999. This short-term debt consisted mainly of CHF 1.0 billion (2000: CHF 408 million; 1999: CHF 1.0 billion) in commercial paper; and other bank and financial debt, including interest bearing employee accounts, of CHF 2.8 billion (2000: CHF 3.1 billion; 1999: CHF 4.7 billion).

We are in compliance with all covenants or other requirements set forth in our financing agreements. We do not have any rating downgrade triggers that would accelerate maturity of our debt. For details of the maturity profile of debt, currency and interest rate structure, see note 18 to the consolidated financial statements. Our debt continues to be rated by Standard & Poor's and Moody's respectively as AAA and Aaa for long-term maturities and A1+ and P1 for short-term debt. We consider our working capital to be sufficient for our present requirements.

The following summarizes our contractual obligations and other commercial commitments, and the effect such obligations and commitments are expected to have on our liquidity and cash flow in future periods.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **2–3 years** | **4–5 years** | **After 5 years** |
| | | | (in CHF million) | | |
| Long-Term Debt | 3,788 | 1,296 | 79 | 2,356 | 57 |
| Operating Leases | 734 | 191 | 216 | 119 | 208 |
| Research & Development Commitments | 1,480 | 482 | 667 | 295 | 36 |
| **Total Contractual Cash Obligations** | **6,002** | **1,969** | **962** | **2,770** | **301** |

We use marketable securities and derivative financial instruments to manage the volatility of our exposures to market risk in interest rates and liquid investments. Our objective is to reduce, where appropriate, fluctuations in earnings and cash flows. We manage these risks by selling existing assets or transactions. We therefore expect that any loss in value for those securities or derivative financial instruments generally would be offset by increases in the value of those hedged transactions.

We use the Swiss franc as our reporting currency and are therefore exposed to foreign exchange movements in US dollar, Euro and in Japanese, other Asian and Latin American currencies. We enter into various contracts, which are impacted by currency movements. We manage the risk associated with currency movements by entering into various contracts to preserve the value of assets, commitments and anticipated transactions. In particular, we enter into forward contracts and foreign currency option contracts in order to hedge certain anticipated foreign currency revenues and our net investments in certain foreign subsidiaries. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk," for additional information.

***Share repurchase program***

In February 2001, our Board of Directors approved a share repurchase program for an amount of up to CHF 4 billion by means of a second trading line established on the SWX Swiss Exchange. As of December 31, 2001, we had repurchased 59 million shares for a total of CHF 3.9 billion. An additional 1.9 million shares were then purchased during January 2002 to complete this program. The average price for the shares we acquired under this program was CHF 66. The Board will propose reducing our share capital by an amount corresponding to the nominal value of the repurchased shares (CHF 30.5 million) at the forthcoming Annual General Meeting in March 2002.

On August 27, 1999, we announced our intention to repurchase shares in the open market for an amount of up to CHF 4 billion. That repurchase program was completed in January 2001. The program was wholly financed with our surplus liquidity. The acquired shares are kept as treasury shares.

At December 31, 2001, our holding of treasury shares (excluding the amount that we will propose to be canceled at the March 2002 Annual General Meeting) amounted to 278 million shares or 9.6% of the total number of shares outstanding.

*Other equity instruments*

During December 2001, through indirectly held affiliates, we sold a total of 55 million ten-year Low Exercise Price Options ("LEPOs") on our shares in two tranches, with an exercise price of CHF 0.01, for EUR 2.2 billion in proceeds (EUR 40 per LEPO). The LEPOs will be settled using Novartis treasury shares. We have accounted for the LEPOs in our balance sheet as an increase in share premium at fair value less related issuance costs. Exercises are recorded as a share issuance with no gains (losses) recorded in our consolidated statements of income.

We also sold a total of 55 million ten-year Put options (the "Put options") on our shares in two tranches with an exercise price of EUR 51 for EUR 616 million in proceeds (EUR 11.22 per Put option). The Put options can be exercised at the third, fourth, fifth, sixth, seventh, and tenth anniversary of the date of sale and can, at our option, either be physically settled, or net-share settled, using our treasury shares. We hold the right to accelerate the exercise date and expiration date for any outstanding options at any time on or after December 6, 2006 at the accreted exercise price of the Put options. We have accounted for the option premium associated with the Put options as an increase in share premium less related issuance costs. Exercises are recorded as treasury share transactions with no gains (losses) recorded in our consolidated statements of income.

The contractual terms of the Put options place a limit on the number of shares to be delivered in a net share settlement. We cannot under any circumstances be forced into a net cash settlement by the counterparty. If we choose to physically settle the Put options, however, this could result in a cash payment to the counterparty. The total possible cash payment measured at the earliest possible exercise date for the two tranches of Put options (2004 and 2005) would amount to EUR 3.1 billion increasing to EUR 3.8 billion at the expiry dates (2010 and 2011) of the two tranches.

*Convertible Bonds*

On October 6, 1995, our affiliate, Sandoz Capital BVI Ltd. (now Novartis Capital Ltd., "Novartis Capital"), Tortola, British Virgin Islands, an indirectly wholly owned subsidiary of Novartis AG, issued a 2% Convertible Bond guaranteed by Sandoz AG due 2002 in the amount of $750 million. Each bond in the principal amount of $10,000 entitles the holder thereof to receive approximately 384.2 of our shares (taking into account the forty-for-one share split). The bonds do not entitle the holder to receive any shares in any other company (e.g. there is no right to convert into Syngenta shares due to the Agribusiness spin-off). The number of shares deliverable upon conversion is subject to certain adjustments under certain circumstances. Fractions of shares will not be delivered on conversion. Instead, we will make a cash payment to each bondholder entitled to a fraction of a share, payable in Swiss francs, in an amount equal to the fraction of a share owned multiplied by the then-current market price of Novartis shares. The bonds may be converted into Novartis shares up to and including September 30, 2002. As of December 31, 2001, bonds with an aggregate principal amount of $717.4 million were outstanding, entitling their holders to a maximum of 27,560,117 of our shares (taking into account the forty-for-one share split).

On October 23, 1995, Novartis Capital issued a 1¼% Convertible Bond guaranteed by Sandoz AG, and due in 2002, in the amount of CHF 750 million. Each bond in the principal amount of CHF 5,000 is convertible into 200 of our shares (taking into account the 40:1 share split) and, due to the Agribusiness spin-off, also into 5 shares of Syngenta, up to and including October 9, 2002. In case of a conversion, each bondholder will also receive an amount of CHF 239.95 per bond in cash. The conversion terms are subject to certain adjustments under certain circumstances. As of December 31, 2001, bonds with an aggregate principal amount of CHF 19.2 million were outstanding, entitling their holders to a maximum of 766,200,000 of our shares (taking into account the forty-for-one share split) and 19,155,000 shares of Syngenta AG.

*Straight Bond*

On October 17, 2001, our affiliate, Novartis Securities Investment Ltd., Bermuda, issued a 4% guaranteed bond by Novartis AG due 2006 in the amount of EUR 900 million.

*ADS Direct Purchase Plan and Dividend Reinvestment Plan*

The Direct Purchase and Dividend Reinvestment Plan for our ADSs, which are listed on the New York Stock Exchange, is a no-fee plan open to new investors as well as existing ADS shareholders in the United States. This plan features no enrollment, purchase or dividend reinvestment fees. An initial investment of $500 is required, or the deposit of a minimum of 10 Novartis ADSs into a plan account. Transaction fees are applied when ADSs are sold. To date, there have been no new issuances of Novartis shares or ADSs under this plan and no effect on our share capital or balance sheet.

### 5.C Research and Development, Patents and Licenses

Our research and development spending totaled CHF 4.2 billion, CHF 4.0 billion and CHF 3.5 billion for the years 2001, 2000 and 1999, respectively. The amounts set forth for 2000 and 1999 have been restated to exclude research and development spending by the discontinued Agribusiness Sector. Each of our sectors has its own research and development and patents policies. For a description of those research and development and patents policies for the last three years, see "Item 4. Information on the Company—4.B Business Overview."

### 5.D Trend Information

Please see "—5.A—Operating Results" for trend information.

## Item 6. Directors, Senior Management and Employees

### 6.A Directors and Senior Management

We are fully committed to good corporate governance. In 2001, a number of changes have been introduced in the interest of transparency and accountability to our shareholders. Our principles and rules on corporate governance are laid down in our Articles of Incorporation, the Regulations Governing Internal Organization and the Charters of the Board Committees. They are reviewed by the Corporate Governance Committee from time to time with suggestions for amendment forwarded to the Board for decision.

Our Board of Directors is elected by our shareholders and holds the ultimate decision-making authority for Novartis AG, except for those matters reserved by law or by our Articles of Incorporation to the shareholders. The Board is comprised of 12 persons. The average age of the Directors is 61 and the average tenure is nearly 4.5 years. The Chairman and Chief Executive Officer is the only executive Director. Messrs. Lippuner and Jetzer were members of the Executive Committee until 1996 and 1999, respectively. The primary functions of the Board, as defined in the Swiss Code of Obligations and in our Articles of Incorporation, are

- strategic direction and management;
- accounting matters, financial control and financial planning;
- appointing and dismissing of members of the Executive Committee and other key executives;
- overall supervision of business operations; and
- setting out the motions to be presented to the General Meeting, including approval of financial statements.

The agenda for Board meetings is set by the Chairman and Chief Executive Officer. Any member of the Board (the "Directors") may request in writing that an item be included on the agenda.

The Directors receive materials in advance of Board meetings allowing them to prepare for the handling of the items on the agenda.

The Board recognizes the importance of being fully informed on material matters involving our Company and our business. Therefore, the Directors are required to hold discussions with our management, to review materials provided to them, to visit offices and plants and to participate in no less than a majority of the meetings of the Board and its Committees.

The Chairman and Chief Executive Officer recommends members of senior management who, at the invitation of the Board, attend Board meetings to report on areas of the business within their responsibility, thereby ensuring that the Board has sufficient information to make appropriate decisions.

The Board reviews the performance of the Chairman and Chief Executive Officer once a year. The Board also meets in Executive Session from time to time to consider other matters of importance to our business.

Daniel Vasella has been elected by the Board as our Chairman and also to serve Novartis AG as Chief Executive Officer. The Board has appointed Prof. Helmut Sihler as Vice Chairman and Lead Director. Hans-Jörg Rudloff has been elected Vice Chairman.

During 2001, the Board met five times. All of our Directors attended 90% or more of the regularly scheduled and special meetings of the Board and Board Committees on which they served in 2001.

Certain information regarding our directors and senior management is set out below.

**Directors**

***Dr. Daniel Vasella (Age 48).*** Chairman of the Board of Directors (since April 1999), Chief Executive Officer and Head of the Group Executive Committee (since December 1996). His current term as Chairman expires in 2004. From 1995 until December 1996, Dr. Vasella was a member of the Sandoz Group Executive Committee and served as Chief Executive Officer of Sandoz Pharma Ltd. Prior to that, Dr. Vasella was Chief Operating Officer and, before that, Senior Vice President and Head of Worldwide Development of Sandoz Pharma Ltd. From 1993, Dr. Vasella was Head of Corporate Marketing of Sandoz Pharma Ltd. In addition to his duties at Novartis, Dr. Vasella is also currently a member of the Board of Directors of Credit Suisse Group in Zurich, Switzerland; the Supervisory Board of Siemens AG in Munich, Germany; the Chairman's Council of DaimlerChrysler in Stuttgart, Germany; and the Board of Directors of PepsiCo, Inc. in Purchase, New York; and of the International Board of Governors of the Peres Center for Peace in Tel Aviv, Israel. In addition, Dr. Vasella is also a member of several industry associations, including the International Business Leaders Advisory Council for the Mayor of Shanghai; a member of the Boards of INSEAD (Institut Européen d'Administration des Affaires, *i.e.,* the European Institute for Business Administration) and IMD (International Institute of Management Development); a member of the Board of Directors of Associates of Harvard Business School; and a member of the Council of the World Economic Forum in Davos, Switzerland. Dr. Vasella graduated with a Ph.D. in medicine from the University of Berne in 1980. He has published scientific papers on psychosomatics and central nervous system disorders and has lectured at the Universities of Berne and Fribourg, as well as other medical colleges and civic groups.

***Prof. Dr. Helmut Sihler (Age 71).*** Vice Chairman of our Board and Lead Director and a member of the Chairman's Committee. He has served in these positions since the Merger in December 1996. His current term expires in 2004. From 1983 until the Merger, he was a member of the Board of Directors and the Chairman's Committee of Ciba-Geigy AG, and Vice Chairman of the Board since 1993. From 1980 to 1992, Prof. Sihler was Chairman of the Central Board of Management of Henkel KGaA in Düsseldorf, Germany, and has served as a member of the Shareholders' Committee of that company since 1992. Prof.

Sihler also is Chairman of the Dr. Ing. h.c. F. Porsche AG in Stuttgart, Germany, and Member of the Supervisory Board of Deutsche Telekom AG, Bonn, Germany. Prof. Sihler serves as honorary professor for economics in Münster, Germany. Prof. Sihler studied philology and law in Graz, Austria and Vermont and graduated with a Ph.D. in philology and in law.

***Hans-Jörg Rudloff (Age 61).*** Vice Chairman of our Board of Directors. Mr. Rudloff has served in this position since the Merger in December 1996. His current term expires in 2004. From 1995 to 1996, Mr. Rudloff was Vice Chairman of the Board of Directors of Sandoz AG. He was elected a Director of Sandoz AG in 1994. Mr. Rudloff has been the Head of Investment Banking of the Barclays Group since 1998. From 1995 to 1998, he served as Chairman of Marcuard Cook & Cie and Chairman of MC-BBL. From 1989 to 1994, he was Chairman and Chief Executive Officer of Credit Suisse First Boston in London, UK, and also served as a member of the Executive Board of Credit Suisse Holding from 1993 to 1994. Mr. Rudloff also is a member of the boards of various companies, including Pargesa S.A. in Geneva, Switzerland and TBG (Thyssen-Bornemisza Group) in Monaco. He also serves on the Advisory Board of the Landeskreditbank in Baden Württemberg, Germany. Mr. Rudloff studied economics at the Universities of Berne and Grenoble and graduated in 1965.

***Birgit Breuel (Age 64).*** Director. Mrs. Breuel has served as a Director since the Merger in 1996 and prior to that, she was a Director of Ciba-Geigy AG since 1994. Her current term expires in 2005. From 1995 to 2000, Mrs. Breuel acted as the General Commissioner and CEO of the World Exposition EXPO 2000 in Hannover, Germany. From 1990 to 1995, Mrs. Breuel was a member of the Board and from 1991 to 1995, she was President of the Treuhandanstalt, which was responsible for the privatization of the former East Germany's economy. From 1986 to 1990, she was Minister of Finance and from 1978 to 1986, Minister of Economy and Transport of the Land Niedersachsen (Lower Saxony), the second largest state of Germany. Mrs. Breuel also serves as a member of the Board of Gruner+Jahr AG in Hamburg, Germany and as a member of the Advisory Board of J.P. Morgan Chase & Co. in Frankfurt, Germany. Mrs. Breuel studied politics at the Universities of Hamburg, Oxford and Geneva.

***Prof. Dr. Peter Burckhardt (Age 63).*** Director. Prof. Burckhardt has held this position since the Merger in December 1996. His current term expires in 2002. He has been Professor of Internal Medicine and Chairman of the Department of Internal Medicine at the University of Lausanne since 1982. He has done active research in metabolic bone disease, calcium metabolism, osteoporosis and clinical nutrition and has published over 200 articles and 150 abstracts in his fields of research. He is the Head of Medical Service at the University Hospital of Lausanne a position he has held since 1992. Prof. Burckhardt also serves as Chairman of the Board of National Osteoporosis Societies, trustee of the International Foundation of Osteoporosis and member of the Committee of Appeal of the Swiss Inter-Cantonal Office for the Control of Drugs. Until 1995, he was President of the Swiss Society of Internal Medicine and the Swiss Osteoporosis Association. Prof. Burckhardt graduated with a Ph.D. in medicine from the University of Basel in 1965.

***Dr. Hans-Ulrich Doerig (Age 62).*** Director. Dr. Doerig has held this position since the Merger in December 1996. His current term expires in 2002. In line with our commitment to good corporate governance principles and to avoid any question of possible conflicts of interest, Dr. Doerig, who is Vice Chairman of the Executive Board and Group Chief Risk Officer of Credit Suisse Group, will be stepping down from the Board of Novartis at the 2002 annual shareholders meeting. (Daniel Vasella is a Member of the Board of Credit Suisse Group). Dr. Ulrich Lehner, CEO of Henkel AG, will be proposed for election as a new Board Member at the 2002 annual shareholders meeting.

***Walter G. Frehner (Age 68).*** Director. Mr. Frehner has served as a Director since the Merger and prior to that, as Director of Ciba-Geigy AG since 1994. His current term expires in 2004. From 1993 until his retirement in May 1996, Mr. Frehner served as Chairman of the Board of Directors of Swiss Bank Corporation, which merged with Union Bank of Switzerland in 1997. From 1987 to 1993, Mr. Frehner was President of the Executive Board of Swiss Bank Corporation, which he joined in 1958. From 1954 to 1957,

he was an apprentice with the Bernese Cantonal Bank in Berne. Mr. Frehner is a Director of Schindler Holding AG and Vice Chairman of the insurance company Bâloise Holding AG, in Basel, Switzerland.

***William W. George (Age 59).*** Director. Mr. George has held this position since May 1999. His current term expires in 2003. He has been Chairman (since 1996) and Chief Executive Officer (since 1991) of Medtronic, Inc. in Minneapolis, Minnesota, where he also served as President and Chief Operating Officer from 1989 to 1991. Mr. George served as corporate Vice President of Honeywell from 1978 to 1989, and prior to that, President of Litton Microwave Cooking Products. Mr. George is a member of the Boards of Directors of Target Corporation (formerly Dayton Hudson); Imation Corporation; and Allina Health Systems, all US corporations. Mr. George received his BSIE with high honors from Georgia Tech in 1964 and his MBA with high distinction from Harvard University in 1966.

***Alexandre F. Jetzer (Age 61).*** Director. Mr. Jetzer has held this position since the Merger in December 1996. His current term expires in 2005. From the Merger until 1999, he was a member of the Executive Committee and Head of International Coordination, Legal & Taxes of the Novartis Group. From May 1995 to December 1996, he was Vice Chairman and Chief Executive Officer of Sandoz Corporation in New York, NY and Chief Executive Officer of Sandoz Pharmaceuticals Corporation in East Hanover, NJ. From 1981 to 1995 he was a member of the Sandoz Group Executive Committee. He received a degree in law and economics from the University of Neuchâtel in 1963 and 1967, respectively.

***Pierre Landolt (Age 54).*** Director. Mr. Landolt has held this position since the Merger, and prior to that, was a Director of Sandoz AG since 1986. His current term expires in 2002. He has been the President of the Sandoz family foundation since 1994. Mr. Landolt is a member of various boards, including Emasan AG, Basel, Switzerland; Curaçao International Trust Company, Curaçao; and Parmigiani Mesure et Art du Temps, Fleurier, Switzerland. Mr. Landolt graduated with a Bachelor of Laws from the University of Sorbonne in Paris.

***Heini Lippuner (Age 68).*** Director and a member of the Chairman's Committee. Mr. Lippuner has served as Director of the Company since the Merger in December 1996 and as a member of the Chairman's Committee since April 1999. His current term expires in 2002. From 1986 to 1996, he was a member of the Executive Committee as well as Chief Operating Officer of Ciba-Geigy AG since 1988. Mr. Lippuner is a member of the Boards of Directors of Bühler AG in Uzwil, Switzerland. He also serves in a number of industry organizations.

***Prof. Dr. Rolf M. Zinkernagel (Age 58).*** Director. Prof. Zinkernagel has held this position since May 1999. His current term expires in 2003. He has been Professor and Director of the Institute of Experimental Immunology at the University of Zurich since 1992. Prof. Zinkernagel won the Nobel Prize for Medicine (Immunology) in 1996. He is a member of the Swiss Society of Allergy and Immunology (President, 1993 to 1994), the American Associations of Immunologists and of Pathologists, the ENI European Network of Immunological Institutions, and the International Society for Antiviral Research. Prof. Zinkernagel is a member of the Boards of Directors of Cytos Biotechnology AG, Schlieren/Zurich, Switzerland; the Lombard Odier Bank, Geneva, Switzerland; Gen-Pat 77, Berlin/Munich, Germany; AlleCure, Los Angeles, United States; Bio-Alliance Capital, Frankfurt, Germany; and Hemolytics AG, Witterswil, Switzerland. Prof. Zinkernagel is also a member of the Scientific Advisory Boards of Cytos Biotechnology AG in Schlieren/Zurich, Switzerland; CTL Therapeutics, Los Angeles, United States; Solis Therapeutics, Palo Alto, United States; and Modex, Lausanne, Switzerland. Prof. Zinkernagel graduated from the University of Basel with a Ph.D. in medicine in 1970.

We have service contracts for Board Members which are customary under Swiss law and do not provide for benefits on termination.

**Executive Officers and Senior Management**

***Dr. Daniel Vasella (Age 48).*** Chairman of the Board of Directors (since April 1999), Chief Executive Officer and Head of the Group Executive Committee (since December 1996). See "—Directors."

*Dr. Raymund Breu (Age 56).* Chief Financial Officer and a member of the Group Executive Committee since December 1996. Dr. Breu was Head of Group Finance of the former Sandoz AG and a member of the Sandoz Group Executive Committee from 1993 until December 1996. Prior to that, he served as Group Treasurer of Sandoz AG. Dr. Breu graduated from the Swiss Federal Institute of Technology in Zurich with a Ph.D. in mathematics in 1971.

*Thomas Ebeling (Age 43).* Chief Executive Officer of Novartis Pharma AG (since July 2000) and member of the Group Executive Committee (since September 1998). From December 1999 to July 2000, Mr. Ebeling was Chief Operating Officer of Novartis Pharma AG. From September 1998 to December 1999, he was Chief Executive Officer of Novartis' Consumer Health Sector. Prior to that, he was Chief Executive Officer of Novartis' global nutrition operations, a position he assumed in December 1997. Mr. Ebeling joined Novartis in May 1997 as General Manager of Novartis Nutrition for Germany and Austria. Before joining Novartis, Mr. Ebeling worked for Pepsi-Cola Germany for six years, during which he served in various capacities: from 1996 to 1997, he was General Manager of Pepsi-Cola in Germany; from 1994 to 1996, he served as National Sales and Franchise Director and before that as Marketing Director for Germany and Austria. Mr. Ebeling graduated with a degree in psychology from the University of Hamburg, Germany in 1986.

*Dr. Paul Choffat (Age 52).* Head of Novartis Consumer Health and member of the Group Executive Committee since January 1, 2002. Prior to rejoining Novartis this year, Dr. Choffat held various senior positions within private industry, including our predecessor Sandoz AG. From 1999 through 2001, Dr. Choffat served on several boards and was an active private investor. From 1996 to 1999, he was the CEO of Fotolabo SA. He initially joined Sandoz in 1995 as Head of Management Resources and International Coordination. He served on the Executive Board and was responsible for Group Planning and Organization, heading the Novartis Merger integration office. He served as CEO of Von Roll in 1994 and previously held positions at McKinsey & Company, Landis & Gyr and Nestlé SA. Dr. Choffat holds a Ph.D. in law from the University of Lausanne and an MBA from the International Institute for Management Development, also in Lausanne, Switzerland.

*Dr. Urs Bärlocher (Age 59).* Head of Legal and General Affairs and a member of the Group Executive Committee since June 1999. From December 1996 until May 1999, Dr. Bärlocher was Head of Corporate Legal, Tax and Insurance. From 1995 until December 1996, he served as Chairman of the Board of Sandoz Deutschland GmbH (Germany) and Biochemie GmbH (Austria). Prior to that, he was Chief Executive Officer of Sandoz Pharma Ltd. for three years. Dr. Bärlocher graduated from the University of Basel with a Ph.D. in law in 1971.

*Norman C. Walker (Age 49).* Head of Human Resources (since May 1998) and a member of the Group Executive Committee (since June 1999). Before joining Novartis, Mr. Walker worked for Kraft Jacobs Suchard in Zurich for seven years, where he was responsible for human resource activities for commercial and manufacturing operations in 26 countries. Mr. Walker has a degree in Business Studies from the University of Brighton and attended the International Senior Managers Program of Harvard Business School.

*Dr. Gilbert Wenzel (Age 45).* Head of Strategic Planning and a member of the Group Executive Committee since November 2000. Prior to joining Novartis, Mr. Wenzel spent fifteen years with McKinsey & Company, where he was a member of the European Leadership Group of the Pharma/Healthcare Sector and a leading member of the European New Venture Initiative, which provides consultancy services to venture capital firms and start-ups. From 1981 to 1985, he was consultant to Hoechst AG in Germany regarding global strategies for generics and over-the-counter medicines. Dr. Wenzel has a degree in Pharmaceutical Sciences and earned a Ph.D. in economics.

***Dr. Glen Bradley (Age 59).*** Chief Executive Officer of the CIBA Vision Sector since May 1990. Dr. Bradley is responsible for all aspects of CIBA Vision's worldwide contact lens and lens care operations, and was responsible, through December 31, 2000, for our ophthalmic pharmaceuticals business. Prior to becoming the Chief Executive Officer of CIBA Vision, Dr. Bradley headed the US operations of CIBA Vision, which he joined in 1986. Dr. Bradley joined the former Geigy Chemical Company in 1969 and held senior management responsibilities in the agricultural, plastics and additives, and electronic equipment divisions of the former Ciba-Geigy Corporation. Dr. Bradley holds a Ph.D. in chemical engineering from Louisiana State University and received an MBA in Finance/Marketing from the University of Connecticut.

***Hans-Beat Gürtler (Age 55).*** Chief Executive Officer of the Novartis Animal Health Sector since December 1996. From 1990 to 1996, he was Head of the Animal Health Sector of the former Ciba-Geigy Group. Before that, he served as Head of the former Ciba-Geigy's Animal Health Sector in the Northern hemisphere for eight years, and as Head of the Seeds business in Spain for three years. Mr. Gürtler graduated with a diploma in commerce and joined Ciba-Geigy AG in 1969.

***Christian Seiwald (Age 46).*** Chief Executive Officer of the Generics Sector since July 2001. Mr. Seiwald has also served as Country Head of Novartis Austria since December 1998. From October 1996 to May 2001, he was Head of Austria Pharma operations. In 1982, Mr. Seiwald received a degree in Business Management from the University of Innsbruck.

***Dr. Oswald Sellemond (Age 69).*** Retired as Chief Executive Officer of the Novartis Generics Sector in July, 2001, a position he had held since December 1996.

***Al Piergallini (Age 55).*** Retired as Chief Executive Officer of Novartis Consumer Health and the Group Executive Committee as of December 31, 2001, a position he had held since December 1999.

None of the above directors or senior management have any family relationship with any other director or member of our senior management. Executive officers are elected by the Board for an indefinite term of office and may be removed by the Board at any time. None of the above directors or senior management were appointed pursuant to an arrangement or understanding between such officer or director and any third party.

## 6.B Compensation

### Compensation of Directors

Non-executive members of the Board of Directors of Novartis AG received an aggregate amount of compensation in 2001 of CHF 2.8 million plus 22,000 shares of Novartis AG with an approximate market value of CHF 1.5 million.

Directors are reimbursed for travel and other related expenses associated with the performance of their duties. Directors are also eligible to participate in certain of the share programs which we offer to senior executives and selected employees.

### Compensation of Senior Management

The aggregate amount of compensation expensed in 2001 by Novartis in respect of senior management for services in all capacities, including compensation for those who retired during 2001, was CHF 11.4 million, of which CHF 9.2 million was salaries and CHF 2.2 million was for cash bonuses. An additional CHF 2.6 million was set aside for pension, retirement and similar benefits.

The following is a listing of senior management:

| Name | Title | Since |
|---|---|---|
| Daniel Vasella, MD[1] . . . . . . . . . | Chief Executive Officer | 1996 |
| Raymund Breu[1] . . | Chief Financial Officer | 1996 |
| Thomas Ebeling[1] . | Chief Executive Officer—Pharmaceuticals | 2000 |
| Paul Choffat[1] . . . . | Chief Executive Officer—Consumer Health | 2002 |
| Norman Walker[1] . . | Head of Human Resources | 1998 |
| Urs Bärlocher[1] . . . | Head of Legal and General Affairs | 1999 |
| Gilbert Wenzel[1] . . | Head of Strategic Planning and Business Development | 2000 |
| Glen Bradley . . . . . | Chief Executive Officer—CIBA Vision | 1990 |
| Hans-Beat Gürtler . | Chief Executive Officer—Animal Health | 1996 |
| Christian Seiwald . . | Chief Executive Officer—Generics | 2001 |

(1) Member of Executive Committee

**Employee Share Participation Plans**

We offer directors, executive officers and other selected employees equity compensation plans which include, depending on the plan, share options, share appreciation rights, and share grants.

**Novartis Share Option Plan**

As part of our compensation strategy, we implemented a Stock Option Plan in 1997 according to which directors, executive officers and other selected employees of Novartis (collectively, the "Participants") are granted options to purchase Novartis shares.

The options under the Novartis Stock Option Plan are granted both as a recognition for past performance as well as an incentive for future contributions by the Participants. They allow the Participants to benefit as the price of the shares increases over time, and thus provide the Participants with a long-term incentive to improve our profitability and success. If a Participant voluntarily leaves our employ, options not yet vested will generally be forfeited. The options under the Novartis Stock Option Plan are granted free of charge and entitle the holder thereof to sell or exercise the options during the exercise period, which begins after the lapse of a vesting period and ends at the end of the term of the options. The options may be exercised either by selling the options to the market maker, or by converting them for forty shares per option (post-split) against payment of a pre-determined exercise price. For options identified as NOVAS7 through NOVAS10, we are only informed if the options are converted, but not if a Participant sells his/her options. For the options identified as NOVAS11, we will be able to obtain from the market maker information on options sold by the Participants. If options are converted, the market maker will deliver to the Participant the number of shares for which options have been converted in exchange for payment of the aggregate exercise price. The shares delivered by the market maker upon conversion of the options will not be newly issued shares, but will be issued and outstanding shares.

Under the 2000 Novartis Stock Option Plan, 14,939 NOVAS10 Options each on 40 registered Novartis shares were granted to directors and senior management on March 7, 2001. The exercise price of NOVAS10 Options is CHF 70 per share and one NOVAS10 Option controls 40 Novartis shares (post-split). The NOVAS10 Options may be sold or converted at any time between March 10, 2003 and March 7, 2010.

Under the 2001 Novartis Share Option Plan, 1,645,606 NOVAS11 Options were granted to senior management. Additional options will be issued to Directors under this program. The number of these

additional options will not be known until after the date of this Annual Report on Form 20-F. The exercise price of NOVAS11 Options is CHF 62 and one NOVAS11 Option controls one Novartis share (conversion ratio 1:1) on March 7, 2002. The NOVAS11 Options may be sold or converted at any time between March 8, 2004 and March 7, 2011.

**Novartis Share Appreciation Rights Plan / Novartis US ADS Incentive Plan for US employees**

In 1997, the Board of Directors' Compensation Committee approved the Novartis Share Appreciation Rights Plan ("SAR-Plan") for selected directors, and executive officers and other selected employees. In accordance with the SAR-Plan, in 2000, the directors and senior management as a group were granted a total of 199,120 SARs. All SARs were granted free of charge and have an exercise price of $31.22. The SARs may be exercised from March 8, 2003 to March 10, 2010. SAR holders are entitled to receive the difference in US dollars between the exercise price and the fair market value of the Novartis American Depositary Shares ("ADSs") as reported by our Depositary, J.P. Morgan Chase & Co., at the close of business on the date of exercise.

In 2001, the Compensation Committee approved the Novartis Share Option Incentive Plan for selected US directors, executive officers and other selected employees. The SAR-Plan was then discontinued. The Novartis Share Option Incentive Plan grants options on Novartis ADSs. In 2001 eligible directors and senior management as a group were granted a total of 132,397 options giving the right to acquire one ADS per option. All ADSs were granted free of charge and have an exercise price of $41.97. The ADSs may be exercised from March 10, 2004 to March 7, 2011. Information on the options for Directors will be determined after the date of this Annual Report on Form 20-F.

On March 7, 2002, eligible senior managers, as a group, were granted a total of 169,907 options giving the right to acquire one ADS per option. All ADS were granted free of charge and have an exercise price of $37.34. The ADS may be exercised from March 7, 2005 to March 7, 2012.

As of March 11, 2002, the fair market value of a Novartis ADS stood at $37.20.

**Management Share Programs**

We offer to certain directors and senior managers a Long-term Performance Plan and a Restricted Share Program. These grants are designed to foster long-term participation for eligible employees by aligning their contribution to our long-term performance. Under the Long-term Performance Plan, a total of 166,770 shares and 132,397 ADSs were granted to directors and senior management in 2001. Under the Restricted Share Program a total of 23,450 shares were granted to directors and senior management in 2001.

**Leveraged Share Savings Program**

In 2001, a new leveraged share savings bonus compensation program was offered to certain senior managers, who could make an election to receive a cash bonus or a bonus in shares. If the manager elects to receive shares in lieu of cash, the shares granted under this plan have a 5-year blocking period. At the end of the blocking period, we will match the bonus taken in shares on a one-for-one basis. Under this leveraged share savings program, we granted 150,480 shares to selected senior managers in 2001.

## 6.C Board Practices

The table below shows the terms of office of the Company's Board of Directors:

| Name | Start of Term | End of Term |
|---|---|---|
| Dr. Daniel Vasella (Chairman) | 1996 | 2004 |
| Prof. Dr. Helmut Sihler (Vice Chairman and Lead Director) | 1996 | 2004 |
| Hans-Jörg Rudloff (Vice Chairman) | 1996 | 2004 |
| Dr. h.c. Birgit Breuel | 1996 | 2005 |
| Prof. Dr. Peter Burckhardt | 1996 | 2002 |
| Dr. Hans-Ulrich Doerig | 1996 | 2002 |
| Walter G. Frehner | 1996 | 2005 |
| William W. George | 1999 | 2003 |
| Alexandre F. Jetzer | 1996 | 2005 |
| Pierre Landolt | 1996 | 2002 |
| Heini Lippuner | 1996 | 2002 |
| Prof. Dr. Rolf M. Zinkernagel | 1999 | 2003 |

### Board Committees

Decisions are made by the Board of Directors as a whole. To assist the Board in carrying out its duties four committees have been created: the Chairman's Committee, the Compensation Committee, the Audit and Compliance Committee and the Corporate Governance Committee (the "Board Committees"). Each Board Committee has a written Charter outlining its duties and responsibilities and a chair elected by the Board. The Board Committees meet regularly and are charged with making full reports and recommendations to the Board at its regular meetings. The meeting agendas of the Board Committees are determined by their chairs. The Board Committee members receive in advance of Committee meetings materials allowing them to prepare for the handling of the items on the agenda.

#### *The Chairman's Committee*

The Chairman's Committee consists of the Chairman and Chief Executive Officer, the two Vice Chairmen, one of which is the Lead Director, and such other members as are elected by the Board from time to time. The Chairman's Committee deals with all matters delegated to it according to its Charter. It prepares the agenda for meetings of the Board and can take any preliminary and required action on behalf of the Board. The Chairman's Committee also interfaces with the Executive Committee of Novartis, specifically approving personnel appointments and financial measures which exceed the authority of the Executive Committee but which do not require approval by the full Board.

Current members of the Chairman's Committee are Dr. Daniel Vasella (Chairman), Prof. Dr. Helmut Sihler, Hans-Jörg Rudloff, Heini Lippuner and William W. George.

#### *The Compensation Committee*

The Compensation Committee is composed of three to five independent Directors.

The Compensation Committee reviews and approves our compensation policies and programs, including share option programs and other incentive-based compensation. It is responsible for reviewing and approving the compensation paid to members of the Executive Committee and other selected key executives, and for reviewing the performance of the Chairman and Chief Executive Officer. The

Compensation Committee from time to time seeks outside expert advice to support recommendations and decisions.

Current members of the Compensation Committee are Prof. Dr. Helmut Sihler (Chairman), Hans-Jörg Rudloff and William W. George.

*The Audit and Compliance Committee*

The Audit and Compliance Committee consists of three to five members. The Board of Directors has determined that all of the members of the Committee are independent, as defined by the rules of the New York Stock Exchange. Members of the Committee shall have sufficient financial and compliance experience and ability to enable them to discharge their responsibilities as members. The Committee's main duties are:

- To select, evaluate and propose to the Board the external auditors to be nominated for approval by the annual Shareholders' Meeting.
- To review annually the external audit scope, audit plans and relevant processes, the results of the external audit, and whether recommendations made have been implemented by our management.
- To discuss with the external auditors the results of the audit, any unusual items or disclosures contained in the audit, and the matters required by Statement on Auditing Standards No. 61, as amended.
- To review annually the internal audit scope, audit plans and relevant processes, the results of the internal audit, and whether recommendations made have been implemented by our management.
- To review with external and internal auditors, and with our financial and accounting personnel, our accounting policies and financial controls.
- To review with management, internal auditors and external auditors any significant risks or exposures we may face, and to assess the steps management has taken to minimize such risks.
- To review the annual financial statements and annual report to consider whether they conform to accepted accounting principles and with the standards we have set.
- To review the processes and procedures for management's monitoring of our compliance with laws, regulations and with our Code of Conduct, as well as major legislative and regulatory developments that may have a significant impact on us.
- To review compliance by our management with those of our policies designated by the Board from time to time, including the Insider Trading Policy.
- To oversee our participation in the Global Compact.

Current members of the Audit and Compliance Committee are Prof. Dr. Helmut Sihler (Chairman), Dr. h.c. Birgit Breuel, Dr. Hans-Ulrich Doerig and Walter G. Frehner.

*The Corporate Governance Committee*

The Corporate Governance Committee consists of three to five independent Directors. The Committee's main duties are:

- To develop principles of corporate governance and recommend them to the Board for its approval.
- To review periodically the principles of corporate governance approved by the Board to ensure that they remain relevant and are being complied with.

- To review the composition and size of the Board in order to ensure the Board has the proper expertise and its membership consists of persons with sufficiently diverse backgrounds.
- To determine the criteria for selection of the Chairman and Chief Executive Officer, Directors and Board Committee members.
- To plan for continuity on the Board as existing Board members retire or rotate off the Board.
- To prepare and annually review succession plans for the Chairman and Chief Executive Officer in case of his resignation, retirement or death.
- To evaluate the performance of current Directors proposed for re-election, and recommend to the Board as to whether Directors should stand for re-election.
- To conduct an annual evaluation of the Board as a whole.
- With the Chairman and Chief Executive Officer, to periodically review the Charter and composition of each Board Committee and make recommendations to the Board for the creation of additional Board Committees or the change in mandate or dissolution of Board Committees.
- To ensure that each Board Committee is comprised of Directors suitable for the tasks of the Committee and that each Committee conducts the required number of meetings and makes sufficient reports to the Board on its activities and findings.

Current members of the Corporate Governance Committee are William W. George (Chairman), Prof. Dr. Helmut Sihler, Hans-Jörg Rudloff and Prof. Dr. Rolf Zinkernagel.

**6.D Employees**

The table below sets forth the breakdown of the total average number of our full time equivalent employees by main category of activity and geographic area for the past three years. The totals set forth for 2000 have been adjusted to exclude employees of the divested Agribusiness sector. The totals set forth for 1999 have not been adjusted.

| For the year ended December 31, 2001 (full time equivalents) | Research & Development | Production & Supply | Marketing & Distribution | General & Administration | Total |
|---|---|---|---|---|---|
| Europe | 5,804 | 9,875 | 10,531 | 4,734 | 30,944 |
| The Americas | 3,043 | 9,081 | 11,750 | 3,083 | 26,957 |
| Asia/Africa/Australia | 741 | 3,502 | 7,146 | 1,030 | 12,419 |
| **Total** | **9.588** | **22,458** | **29,427** | **8,847** | **70,320** |

| For the year ended December 31, 2000 (full time equivalents) | Research & Development | Production & Supply | Marketing & Distribution | General & Administration | Total |
|---|---|---|---|---|---|
| Europe | 5,627 | 9,961 | 9,461 | 5,662 | 30,711 |
| The Americas | 2,957 | 9,656 | 10,941 | 2,905 | 26,459 |
| Asia/Africa/Australia | 674 | 3,691 | 6,537 | 996 | 11,898 |
| **Total** | **9,258** | **23,308** | **26,939** | **9,563** | **69,068** |

| For the year ended December 31, 1999 (full time equivalents) | Research & Development | Production & Supply | Marketing & Distribution | General & Administration | Total |
|---|---|---|---|---|---|
| Europe | 7,881 | 13,234 | 11,782 | 7,379 | 40,276 |
| The Americas | 4,230 | 10,170 | 10,422 | 3,232 | 28,054 |
| Asia/Africa/Australia | 1,086 | 4,157 | 7,371 | 1,515 | 14,129 |
| **Total** | **13,197** | **27,561** | **29,575** | **12,126** | **82,459** |

A relatively small number of our employees are represented by unions. We have not experienced any material work stoppages in recent years, and we consider our employee relations to be good.

### 6.E Share Ownership of Directors and Senior Management

The aggregate amount of our shares personally owned by current directors and senior management as of December 31, 2001 was 840,970 shares, which amount is less than 1% of our outstanding shares. No individual director or member of senior management owned 1% or more of our outstanding shares.

The aggregate amount of Novartis share and ADS options, including other information regarding the options, held by current directors and senior management as of March 7, 2002, is set forth below:

| Title of Options | Amount of shares called for by the options | Exercise Price[(1)] (CHF) | Purchase Price (if any) | Expiration Date | Total number of options held |
|---|---|---|---|---|---|
| Novas07 Options ....... | 40 | 42.75 | 0 | January 15, 2007 | 6,752 |
| Novas08 Options ....... | 40 | 68.35 | 0 | January 16, 2008 | 7,718 |
| Novas09 Options ....... | 40 | 51.325 | 0 | March 10, 2009 | 16,114 |
| Novas10 Options ....... | 40 | 70 | 0 | March 7, 2010 | 14,939 |
| Novas11 Options ....... | 1 | 62.00 | 0 | March 7, 2011 | 1,645,606[(2)] |
| **Total Novartis Share Options** ........... | | | | | **1,691,129** |
| Novartis ADS Options Cycle V ........... | 1 | $41.97 | | March 7, 2011 | 132,397 |
| Novartis ADS Options Cycle VI ........... | 1 | $37.28 | | March 7, 2012 | 170,133 |
| **Total Novartis ADS Options** ........... | | | | | **302,530** |

(1) Exercise price indicated is per share.

(2) Directors are not included in the total number of options held as their number of options will not be known until after the Annual General Meeting.

**Novartis Employee Ownership Plans**

Pursuant to the Novartis Employee Ownership Plan, which was approved by the Board of Directors in 1998, all employees of our Swiss subsidiaries are entitled to purchase 120 shares, at a predetermined discount price, after each full year of service. In 2001, the price was set at CHF 12.50 per share. 80 of the shares were freely disposable, and 40 of the shares must be deposited with us until the person concerned leaves the employment, or retires from, the relevant Swiss affiliate. These employees were then required to immediately buy the shares to which they became entitled. During 2001, 2000 and 1999, an aggregate of 862,720, 1,429,520 and 1,623,280 shares, respectively, were acquired by these employees under this plan.

A new Novartis Employee Ownership Plan was introduced in January 2002 for all employees of our Swiss subsidiaries, which will replace the existing plan. These employees will receive an annual incentive bonus delivered in Novartis shares at a fixed date at the then valid fair market value of the share. The new plan will allow these employees to immediately sell either all or half of the shares received, or to keep all the shares for a three year vesting period, at which time we will give the employee one additional free share for every two shares retained and deposited by the employee under this plan.

Beginning in 2002, two share ownership plans were introduced for employees of our UK affiliates. The first is the Novartis UK Share Ownership Plan, a UK Inland Revenue approved plan set up under a Trust. For every two shares purchased employees will receive one share free. However, the employee would forfeit the matching share and any tax relief received if the employee were to leave the employ of his/her UK employer within 3 years of the award. If the shares are held in the plan for 5 years or more then the employee will not be liable for any form of tax on both the shares they purchased and the free matching shares. The employee's maximum annual investment under this plan is EUR 1,500.

Under the second UK plan, the Novartis UK Incentive Conversion Plan, employees can invest their net incentive, which is the maximum allowable payment to the Novartis UK Share Ownership Plan. For

every two shares purchased the employee will receive one free share. But the employee would forfeit the free share if the employee leaves the employee of his/her UK employer within 3 years of the award.

## Item 7. Major Shareholders and Related Party Transactions

### 7.A Major Shareholders

Based on our share register, we believe that we are not directly or indirectly owned or controlled by another corporation or government, and there are no arrangements that may result in a change of control.

As of December 31, 2001, our registered share capital was CHF 1,442,602,340, divided into 2,885,204,680 shares with a nominal value of CHF 0.50 each. Based on our share register, it appears that approximately 78% of our registered shares are held in Switzerland, and approximately 11% of our shares are held in the United States. However, since certain of our shares are held by brokers or other nominees, the above numbers are not representative of the actual number of US and Swiss persons who are beneficial owners of our shares.

As of December 31, 2001, the only person or entity which was the registered owner of more than 5% of our shares, whether or not the voting rights of such shares were exercisable, was J.P. Morgan Chase & Co., in its capacity as Depositary of the ADSs. Our next largest registered shareholders, owning between 1% and 5% of our share capital, are Emasan AG (3.8%), the Novartis Foundation for Employee Participation (3.5%) and Swiss Life Insurance and Pension Company (1.0%). In 2000, these shareholders held 3.8%, 3.2% and 2.1%, respectively. Each of these shareholders is entered in the share register with voting rights for its entire shareholdings. The largest registered nominee shareholder with voting rights is Chase Manhattan (6.33%), which entered into a nominee agreement with us and disclosed the names, addresses and number of shares of the beneficial owners for whose account it holds the shares. No other nominee shareholders nor any beneficial owner known to us holds more than 1% of our shares.

### 7.B Related Party Transactions

We have formed certain foundations for the purpose of advancing employee welfare, employee share participation, research and charitable contributions. The charitable foundations foster health care and social development in rural countries, and conduct agricultural development and research. The foundations are autonomous, and their boards are responsible for administering the foundations in accordance with the foundations' purpose and applicable law.

The employee share participation foundation has not been included in our consolidated financial statements prepared under IAS, as the International Accounting Standards Committee, Standing Interpretations Committee No. 12, exempts post-employment and equity compensation plans from its scope. The total assets of this foundation, as of December 31, 2001, included 101.3 million of our shares with a market value of approximately CHF 6.1 billion. As of December 31, 2000, the assets included 98 million of our shares with a fair market value of CHF 7.0 billion. This foundation has been consolidated with our financial statements under US GAAP, and is included as a reconciling item in the US GAAP reconciliation.

In 2001 we granted short-term loans totaling CHF 1.2 billion to the employee welfare and other foundations and received short-term loans totaling CHF 10 million from them. In 2000, we granted short-term loans totaling CHF 936 million to these foundations, received short-term loans totaling CHF 6 million from them and sold 1.4 million of our shares to them at market rates.

In 1999 we granted short-term loans totaling CHF 330 million to these foundations, received short-term loans totaling CHF 192 million from them and sold 11.1 million of our shares to them at market rates.

Approximately twenty of these foundations were established for charitable purposes and have not been consolidated, as we do not receive a benefit from them. As of December 31, 2001 these foundations held approximately 6.2 million of our shares with a cost of approximately CHF 39 million. See notes 5, 26 and 27 to the consolidated financial statements for disclosure of other related party transactions and balances.

**7.C Interests of Experts and Counsel**

Not applicable.

**Item 8. Financial Information**

**8.A Consolidated Statements and Other Financial Information**

**8.A.1** See Item 18.

**8.A.2** See Item 18.

**8.A.3** See Report of Independent Accountants, page F-1.

**8.A.4** We have complied with this requirement.

**8.A.5** Not applicable.

**8.A.6** Not applicable.

**8.A.7** Legal proceedings.

We are involved in a number of legal proceedings and claims incidental to the normal conduct of our businesses, relating to such matters as product liability, patent infringement, antitrust, licensing, environmental claims and other matter. Although the outcome of these claims, legal proceedings and other matters cannot be predicted with any certainty, we do not believe that any liability resulting from the resolution of any such claims or proceedings would have a material adverse effect on our financial condition, results of operations or cash flow.

We maintain general liability insurance, including product liability insurance, covering claims on a worldwide basis with coverage limits and retention amounts which we believe to be reasonable and prudent in light of our businesses and the risks to which they are subject.

**8.A.8 Dividend policy.**

Subject to the dividend policy described below, our Board of Directors expects to recommend the payment of a dividend in respect of each financial year. If approved by our shareholders at the relevant annual Shareholders' Meeting, which is normally held in March, the dividends will be payable immediately following such approval. Any shareholder who purchased our shares on or before the second trading day after the shareholders' meeting shall be deemed to be entitled to receive the dividends and, in bonus issues, new shares, and to exercise shareholders' preemption rights to participate in issues of securities. Dividends are reflected in our financial statements in the year in which they are approved by our shareholders.

Our Board's stated policy is that, over the long term, the size of the dividend should be geared to growth in our after-tax earnings. All future dividends paid by us will depend upon our financial condition at the time, the results of our operations and other factors.

Because we pay dividends in Swiss francs, exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs.

### 8.B Significant Changes

On March 22, 2001, our shareholders approved a reduction in the nominal value of our shares to CHF 0.50 per share, which was effective on May 7, 2001. This reduction had the effect of splitting our shares by a factor of 40.

We have submitted a proposal to our shareholders, to be voted upon at their next annual Shareholders Meeting on March 21, 2002, for a reduction of our share capital by CHF 30,527,340, as a means of fully retiring those shares acquired in the share repurchase program announced in February, 2001.

## Item 9. The Offer and Listing

### 9.A Listing Details

Our shares are listed in Switzerland on the SWX Swiss Exchange ("SWX"). The principal trading market for our shares is the virt-x. Prior to the creation of virt-x in June 2001, our shares were traded on the SWX. Since 1996, our shares have also been quoted on London's SEAQ International. The ADS program has existed since December 1996, and was established pursuant to a Deposit Agreement which we entered into with J.P. Morgan Chase & Co. as Depositary (the "Deposit Agreement"). Our ADSs have been listed on the NYSE since May 2000, and are traded under the symbol "NVS."

The table below sets forth, for the periods indicated, the high and low closing sales prices for our shares traded in Switzerland and for ADSs traded in US. The data below regarding our shares reflects price and volume information for trades completed by members of the virt-x (or the SWX, as applicable) during the day as well as for inter-dealer trades completed off the virt-x (or the SWX, as applicable) and certain inter-dealer trades completed during trading on the previous business day. The data below has been adjusted to reflect the 40-for-1 share split and diminution in nominal share value from CHF 20 to

CHF 0.50 and the ADS-share ratio change from 40-for-1 to 1-for-1 effective May 7, 2001. The share data was taken from virt-x and SWX. The ADS data was taken from Bloomberg:

| | Shares | | ADSs | |
|---|---|---|---|---|
| | High | Low | High | Low |
| | (CHF per share) | | ($ per ADS) | |
| **Annual information for the past five years** | | | | |
| 2001 | 74.15 | 54.95 | 45.00 | 32.98 |
| 2000[(1)] | 73.90 | 49.72 | 44.94 | 34.63 |
| 1999[(1)] | 72.95 | 42.68 | 53.13 | 34.63 |
| 1998[(1)] | 69.35 | 48.30 | 53.25 | 35.50 |
| 1997[(1)] | 63.12 | 35.88 | 44.25 | 25.44 |
| **Quarterly information for the past two years** | | | | |
| **2001** | | | | |
| First Quarter | 74.15 | 62.88 | 44.28 | 38.14 |
| Second Quarter | 72.10 | 61.30 | 41.04 | 35.21 |
| Third Quarter | 65.25 | 54.95 | 37.58 | 33.61 |
| Fourth Quarter | 65.29 | 55.80 | 39.74 | 34.15 |
| **2000[(1)]** | | | | |
| First Quarter | 59.18 | 49.72 | 36.38 | 28.62 |
| Second Quarter | 64.92 | 56.20 | 39.12 | 33.08 |
| Third Quarter | 67.70 | 63.15 | 39.61 | 35.03 |
| Fourth Quarter | 73.90 | 66.25 | 44.94 | 36.68 |
| **Monthly information for most recent six months** | | | | |
| October 2001 | 65.20 | 60.75 | 39.39 | 38.72 |
| November 2001 | 63.65 | 57.80 | 38.32 | 36.00 |
| December 2001 | 60.00 | 55.80 | 36.50 | 34.15 |
| January 2002 | 59.00 | 56.60 | 35.79 | 34.30 |
| February 2002 | 64.75 | 58.75 | 37.96 | 34.32 |
| March 2002 (through March 11) | 64.25 | 61.90 | 37.36 | 37.04 |

(1) Share prices have been revised for 2000, 1999, 1998, and 1997 to reflect the share split which occurred on May 7, 2001 resulting in a share: ADS ratio change from 40:1 to 1:1.

Fluctuations in the exchange rate between the Swiss franc and the US dollar will affect any comparisons of Swiss share prices and US ADS prices.

The average daily volumes traded on the virt-x (or the SWX, as applicable) for the years 2001, 2000, and 1999 were 5,999,640, 6,648,080 and 7,198,280 respectively. These numbers were based on total annual turnover statistics supplied by the virt-x (or the SWX as applicable) via the Swiss Market Feed, which supplies such data to subscribers and to other information providers.

A 2-for-1 share split for the ADSs was affected on May 11, 2000. A 40-for-1 share split of the shares was affected on May 7, 2001 simultaneously with an ADS-to-share ratio change from 40-for-1 to 1-for-1. On March 11, 2002, the closing sales price per share on the virt-x was CHF 62.40 (approximately $37.14 per share) and per ADS on the NYSE was $37.20.

### 9.B Plan of Distribution

Not applicable.

### 9.C Market

The principal trading market for our shares is the virt-x. Since 1996, our shares have also been quoted on SEAQ International.

ADSs, each representing one share, have been available in the United States through an American Depositary Receipts ("ADR") program since December 1996, which was established pursuant to a Deposit Agreement we entered into with J.P. Morgan Chase & Co. as Depositary. ADSs in the United States are traded on the NYSE under the symbol "NVS." The Depositary has informed us that as of March 11, 2002, there were 105,161,125 ADSs outstanding, each representing one Novartis share (approximately 3.64% of all issued and outstanding shares, including treasury shares). See "Item 9. The Offer and Listing—9.A Listing Details."

### 9.D Selling Shareholders

Not applicable.

### 9.E Dilution

Not applicable.

### 9.F Expenses of the Issue

Not applicable.

## Item 10. Additional Information

### 10.A Share capital

Not applicable.

### 10.B Memorandum and articles of association

Set forth below is a summary of the material provisions of our Articles of Association (the "Articles") and the Swiss Code of Obligations relating to the shares. This summary cannot be assumed to be complete and is subject always to Swiss law and to the Articles.

#### Shares

We have one class of registered shares. The 40-for-1 split in our shares took effect on May 7, 2001. As of December 31, 2001, a total of 2,885,204,680 shares were registered, with a nominal value of CHF 0.50 each. The shares are fully paid-in and non-assessable.

We may issue certificates representing several shares. Shareholders may exchange these certificates at any time for certificates representing smaller numbers of shares, or for individual share certificates. If the owner of the shares consents, we may renounce the printing and delivery of share certificates.

*Capital Structure*

As of December 31, 2001, our share capital was CHF 1,442,602,340, made up of 2,885,204,680 fully paid-in registered shares, each with the nominal value of CHF 0.50. We intend to propose at the next shareholders' meeting to reduce the share capital by CHF 30,527,340, in order to fully retire the shares which we acquired during the 2001 share repurchase program.